

**Audited Financial Statements  
& Other Financial Information**

**TRANQUILLITY IRRIGATION DISTRICT**

**December 31, 2008**

**JOHN M. MURAO**  
**Certified Public Accountant**

# TRANQUILLITY IRRIGATION DISTRICT

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### **Independent Auditor's Report**

Board of Directors  
Tranquillity Irrigation District  
Tranquillity, California

I have audited the accompanying basic financial statements of the Tranquillity Irrigation District (the District) as of and for the year ended December 31, 2008 as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information was derived from the District's 2007 financial statements and in my report dated March 11, 2008 I expressed an unqualified opinion on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's minimum audit requirements for California Special Districts. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tranquillity Irrigation District as of December 31, 2008 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The management's discussion and analysis on pages 2 through 5 are not a required part of the District's basic financial statements but are supplementary information required by the Government Accounting Standards Board. The management's discussion and analysis is the responsibility of the District's management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 24, 2009 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

March 24, 2009  
Fresno, California

**TRANQUILLITY IRRIGATION DISTRICT**  
**Management Discussion and Analysis**  
**December 31, 2008**

As management of the Tranquillity Irrigation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended December 31, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

***Financial Highlights***

- The District's total net assets increased \$903,903 or 20.9% over the course of the year's operations.
- The District's operating revenue increased \$457,922 or 15.6%, and operating expenses increased \$371,932 or 17.3% during the year ended December 31, 2008.
- The District's long-term debt decreased by \$199,642 from \$1,998,391 to \$1,798,749.

***Overview of the Financial Statements***

This annual financial report includes this management's discussion and analysis, the independent auditor's report, the basic financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

***Required Financial Statements***

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement can be used to determine whether the District has successfully recovered all of its costs through its user fees and other charges, its profitability, and its credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

***Financial Analysis of the District***

One of the most important questions asked about the District's finances is "Is the District, as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and the changes in them. One can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**TRANQUILLITY IRRIGATION DISTRICT**  
**Management Discussion and Analysis**  
**December 31, 2007**

**Net Assets**

A comparison of the Statement of Net Assets can determine the change in the components of financial position (-the assets and liabilities) of the District from year-end to year-end. This comparison is presented in the following table:

**Condensed Statement of Net Assets**

	2008	2007	Increase (Decrease)	Percent Change
Current assets	\$ 1,421,071	\$ 1,241,952	\$ 179,119	14.4%
Capital assets	5,654,259	5,106,298	547,961	10.7%
Other assets	231,648	251,827	(20,179)	-8.0%
Total Assets	<u>7,306,978</u>	<u>6,600,077</u>	<u>706,901</u>	<u>10.7%</u>
Current liabilities	352,637	387,099	(34,462)	- 8.9%
Non-current liabilities	1,592,581	1,796,246	(203,665)	-11.3%
Deferred revenue	130,924	89,799	41,125	45.8%
Total Liabilities	<u>2,076,142</u>	<u>2,273,144</u>	<u>(197,002)</u>	<u>-8.7%</u>
Net assets:				
Invested in capital assets	3,942,537	3,206,693	735,844	22.9%
Unrestricted	1,288,299	1,120,240	168,059	1.4%
Total Net Assets	<u>\$ 5,230,836</u>	<u>\$ 4,326,933</u>	<u>\$ 903,903</u>	<u>20.9%</u>

The District's net assets increased \$903,903 between fiscal years ending 2007 and 2008 from \$4,326,933 to \$5,230,836 due to net income. The District's net assets reflect its investment in capital assets (e.g. land, land rights, buildings and improvements, canal system, wells and pumps, equipments, vehicles,) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Revenues, Expenses and Changes in Net Assets**

A comparison of the Statement of Revenues, Expenses and Changes in Net Assets for each year will explain the changes in financial position that resulted from the operating activities during that year. This comparison is presented in the following table:

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net assets provides answers as to the nature and source of these changes.

**TRANQUILLITY IRRIGATION DISTRICT**  
**Management Discussion and Analysis**  
**December 31, 2007**

A summary of the District's Statement of Revenues, Expenses and Changes in Net Assets follows:

***Condensed Statement of Revenues, Expenses and Changes in Net Assets***

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Irrigation revenue	\$ 3,112,350	\$ 2,689,522	\$ 422,828	15.7%
City water fees	194,685	159,872	34,813	21.8%
Assessments	78,922	78,641	281	0.4%
Total operating revenue	3,385,957	2,928,035	457,922	15.6%
Non operating revenue	189,743	304,486	(114,743)	-37.7%
Total revenue	<u>3,575,700</u>	<u>3,232,521</u>	<u>343,179</u>	<u>10.6%</u>
Operating expenses				
Water purchased	222,635	229,054	(6,419)	-02.8%
Transmission and distribution	1,770,793	1,388,040	382,753	27.6%
General and administrative	526,197	530,599	(4,402)	-0.8%
Total operating expenses	2,519,625	2,147,693	371,932	17.3%
Non operating expenses	152,172	118,071	34,101	28.9%
Total expenses	<u>2,671,797</u>	<u>2,265,764</u>	<u>406,033</u>	<u>17.9%</u>
Increase (Decrease) in net assets	<u>\$ 903,903</u>	<u>\$ 966,757</u>	<u>\$ (62,854)</u>	<u>-6.5%</u>

The District's operating revenues increased 15.6% to \$3,385,957 due to increase in irrigation revenue and City water fees.

The District's operating expenses increased 17.3% to \$2,519,625. Non-operating revenue decreased 37.7% to \$189,743 in 2008 primarily due to lesser land lease revenue received during the year. Non-operating expenses increased 17.9% to \$2,671,797 due to \$18,917 cost of office equipment written off which the District has determined to be non-existent.

***Budgetary Highlights***

The District adopts an annual budget each year to project the costs for operations, capital, and debt service for the coming year. The budget includes these projected expenses and the means of financing them. Management throughout the year analyzed the District's budget; however it is not reported on, nor shown in the financial statements section of this annual report.

It is the Board's policy to make year-end adjustments to reflect actual costs incurred for the year. Standby charges and water toll charges may also be adjusted during the course of the year, if necessary. This policy insures that each year, each water user and landowner is charged the full burden of that year's water cost.

A December 31, 2008 actual to budget comparison is presented on page 18.

***Capital Assets***

As of December 31, 2008, the District had invested \$5,654,259 in capital assets net of \$3,179,191 accumulated depreciation. This amount represents a net increase of \$547,961 or 10.7% compared with last year primarily due to additions to capital assets of \$840,083 reduced by depreciation in the amount of \$268,808 provided for during the year and the net cost of office equipment sold and/or written-off as non-existent assets totaling \$23,314. More details of the Capital Assets are presented on Note 7 of the financial statements.

**TRANQUILLITY IRRIGATION DISTRICT**  
**Management Discussion and Analysis**  
**December 31, 2007**

**Long-Term Debt**

At December 31, 2008, the District had \$1,798,749 of long-term debt representing a decrease of \$199,642 or 8.8% from the prior year. More detailed information about the District's long-term debt is presented in Note 11 of the financial statements.

***Contacting the District's Management***

This annual financial report is designated to provide our customers and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Tranquillity Irrigation District, 25390 W Silveria, Tranquillity, CA 93668.

Tranquillity Irrigation District  
Statement of Net Assets  
December 31, 2008  
(With Summarized Comparative Information For December 31, 2007)

	2008	2007
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 661,980	\$ 540,165
Investment in securities	515,443	494,661
Accounts and other receivables	105,057	117,162
Grant and retention receivable	20,000	-
Notes receivable, current portion	9,814	8,754
Materials and supplies inventory	29,452	24,301
Prepaid expenses and other current assets	79,325	56,909
Total current assets	<u>1,421,071</u>	<u>1,241,952</u>
Utility, plant, net of accumulated depreciation	5,654,259	5,106,298
Other Assets		
Notes receivable, net of current portion	-	9,272
Bond issuance and refunding fees, net of accumulated amortization	27,366	34,804
State administrative fee, net of accumulated amortization	27,752	31,221
Contributed funds for Intertie Project	176,530	176,530
Total other assets	<u>231,648</u>	<u>251,827</u>
Total assets	<u><u>\$ 7,306,978</u></u>	<u><u>\$ 6,600,077</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 124,247	\$ 152,083
Accrued vacation and sickleave	22,222	32,871
Current maturities of long-term debt	206,168	202,145
Total current liabilities	<u>352,637</u>	<u>387,099</u>
Long-term debt, net of current maturities	1,592,581	1,796,246
Deferred revenue	130,924	89,799
Total liabilities	<u>2,076,142</u>	<u>2,273,144</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,942,537	3,206,693
Unrestricted	1,288,299	1,120,240
Total net assets	<u><u>\$ 5,230,836</u></u>	<u><u>\$ 4,326,933</u></u>

See accompanying notes to financial statements



Tranquillity Irrigation District  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended December 31, 2008  
(With Summarized Comparative Information For Year Ended December 31, 2007)

	2008	2007
Operating revenues		
Irrigation revenue	\$ 3,112,350	\$ 2,689,522
City water fees	194,685	159,872
Assessments	78,922	78,641
Total operating revenues	<u>3,385,957</u>	<u>2,928,035</u>
Operating expenses		
Water Purchased		
Irrigation	<u>222,635</u>	<u>229,054</u>
Transmission and distribution		
Irrigation	1,562,520	1,145,828
City Water	184,587	192,635
Park Service	23,686	49,577
	<u>1,770,793</u>	<u>1,388,040</u>
General and administrative	526,197	530,599
Total operating expenses	<u>2,519,625</u>	<u>2,147,693</u>
Income (Loss) from operations	<u>866,332</u>	<u>780,342</u>
Nonoperating income (expenses)		
Interest income	16,656	5,309
Land lease revenue	115,200	179,625
Other nonoperating revenue	18,943	15,571
RPA Stabilization refund	15,774	-
Interest expense	(90,424)	(95,458)
Gain or (loss) on disposal of utility plant assets	(19,058)	4,200
Amortization of bond issuance fees	(6,295)	(6,295)
Amortization of state loan administrative fee	(3,469)	(3,469)
Amortization of loan fess - City Nationa Bank	(1,143)	(1,143)
Net appreciation (depreciation) of investments	(27,087)	22,266
Other nonoperating expense	(4,696)	-
Feasibility study	-	(11,706)
Net non operating income (expenses)	<u>14,401</u>	<u>108,900</u>
Net Income before capital contributions	<u>880,733</u>	<u>889,242</u>
Capital Contributions	23,170	77,515
Change in net assets	903,903	966,757
Net assets - beginning of year	<u>4,326,933</u>	<u>3,360,176</u>
Net assets - end of year	<u>\$ 5,230,836</u>	<u>\$ 4,326,933</u>

See accompanying notes to financial statements

Tranquillity Irrigation District  
Statement of Cash Flows  
For the Year Ended December 31, 2008  
(With Summarized Comparative Information For Year Ended December 31, 2007)

	2008	2007
Cash flows from operating activities		
Cash received from:		
Customers and others	\$ 3,500,414	\$ 2,951,395
Cash paid to:		
Suppliers	(1,892,600)	(1,487,466)
Employees	(360,275)	(354,162)
Net Cash provided (used) by operating activities	<u>1,247,539</u>	<u>1,109,767</u>
Cash flows from investing activities		
Collection of notes receivable	8,212	9,395
Interest revenue received	16,656	5,309
Purchases of securities	(14,056)	(2,178)
Net appreciation (depreciation) of investment	(33,813)	-
Proceeds from sale of securities		86,139
Net Cash Provided (Used) by Investing Activities	<u>(23,001)</u>	<u>98,665</u>
Cash flows from capital financing activities		
Acquisition and construction of capital assets	(840,082)	(691,809)
Land lease revenue	-	179,625
Interest paid	(90,424)	(95,458)
Proceeds from disposal of fixed assets	4,255	4,200
Grant revenue	23,170	-
Payments on long-term debt	(199,642)	(193,228)
Net Cash Provided (Used) by Capital Financing Activities	<u>(1,102,723)</u>	<u>(796,670)</u>
Net Increase (Decrease) in cash and cash equivalents	121,815	411,762
Cash and cash equivalents, January 1	540,165	128,403
Cash and cash equivalents, December 31	<u>\$ 661,980</u>	<u>\$ 540,165</u>
Reconciliation of Operating Income to Net Cash from Operating Activities:		
Operating income (loss)	\$ 866,332	\$ 780,342
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	268,808	250,411
Non-operating income (net)	145,221	81,379
(Increase) Decrease in:		
Accounts and other receivables	12,105	(52,521)
Grant and retention receivable	(20,000)	58,342
Material and supplies inventory	(5,151)	9,978
Prepaid expenses and other current assets	(22,416)	(12,680)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(27,836)	25,058
Accrued vacation and sick leave	(10,649)	(23,323)
Deferred revenue	41,125	(7,219)
Net cash provided by operating activities	<u>\$ 1,247,539</u>	<u>\$ 1,109,767</u>

See Accompanying Notes to Financial Statements

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

(1) DESCRIPTION OF ENTITY

(a) Description of Operations

Tranquillity Irrigation District (the "District") was formed as a special district under the provision of the Water Code of the State of California and covers an area of approximately 10,750 acres. It is governed by a three-person Board of Directors. The District operates as an agricultural state water contractor in the County of Kings. The primary function of the District is to acquire and distribute agricultural and domestic water.

(b) Reporting Entity

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Government Accounting Standards Board (GASB)*, the financial statements must present the District (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Presentation and Accounting

The District follows the provisions of the Governmental Accounting Standards Board Statement Nos. 34, *"Basic Financial Statements and Management's Discussion and Analysis- For State and Local Governments."* Statement 34 established the financial reporting standards for all state and local government entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets in the following three components:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

*Restricted net assets* – This component of net assets consists of constraints imposed by creditors (such as through debt covenant), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows. The District accounts for its operations as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises: (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(b) Cash Equivalents and Investments

The District considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. This includes bank certificates of deposit, deposits with the State of California Local Agency Investment Fund (LAIF), Investment Trust of California and pooled investments in the County of Kings investment pool.

(c) Accounts Receivable

The District's management believes that all accounts receivable from water users and others are fully collectible for the year ended December 31, 2008. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements,

(d) Investment in Securities

The District adopted GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments" as of December 31, 2000. Under GASB Statement No. 31, all investments in debt securities, equity securities, mutual funds and certificates of deposit are valued at their fair values in the balance sheet. Unrealized gains and losses are included in the statement of revenues and expenses.

(e) Material and Supplies Inventory

Material and supplies inventory consist of fuel, weed chemicals, and irrigation pipes which are recorded at the lower of replacement value or estimated market value.

(f) Capital Assets

Capital assets are stated at historical cost. Depreciation of property, plant and equipment are computed using the straight-line method over the useful lives of the assets. Depreciation is charged against operations and accumulated depreciation is reported net with capital assets. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets are recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to non-operating income.

The estimated useful lives of the various assets of the District are as follows:

<u>Type of Assets</u>	<u>Estimated Useful Life in Years</u>
Transmission & distribution plant	5-50
General Plant	7-30

(g) Bond Issuance Fees and refunding fees

The fees incurred in connection with the Tranquillity Irrigation Improvement District No. 92-1 revenue warrants are to be amortized by the straight-line method over the term of the warrants. Also, capitalized are the financing costs of the advanced refunding of the warrant.

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

(h) State Administrative Fee

The fee incurred in connection with the water conservation construction loan under the Water Conservation Bond Law of 1988 is to be amortized by the straight-line method over the term of the contract.

(i) Revenue Recognition

Water sales are recorded when water is delivered to the user. Assessments are recorded when levied. Deferred revenues are recorded when prepayments or deposits are received on future water deliveries and are recognized as income when the water is delivered to the water user.

(j) Assessments

In accordance with the provisions of Division 11 of the Water Code of the State of California, an annual assessment is levied upon the land within the District to provide the funds necessary for the District to meet its financial obligations. The assessment levied in October of each year is to acquire funds for operations during the next calendar year.

(k) Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. For purposes of additional disclosure, cash paid for interest amounted to \$90,424.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Prior Period Comparative Financial Information

The basic financial statements include prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

**(3) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2008 follow:

Cash on hand	\$ 464
Central Valley Community Bank - Checking	18,945
Central Valley Community Bank - Savings	640,244
Wachovia Securities Money Market Fund	2,327
	<u>\$ 661,980</u>

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

The District's cash and cash equivalents are invested pursuant to investment policy guidelines established by the Board of Directors. The objectives of the policy are, in order of priority: preservation of capital, liquidity, and yield. The Government Code of California authorizes the District to invest in savings accounts, money market and checking accounts, State Local Agency Investment Fund, Certificates of Deposits, Treasury Bills, and Notes and Government Agency Securities.

The California Government Code requires California banks and savings and loan association to secure the District's deposits by pledging government securities or first trust deed mortgage notes. The District's cash and cash equivalents are entirely insured by Federal Depository Insurance or collateralized with pools of securities held by the pledging financial institution's trust department or agent but not in the District's name.

Central Valley Community Bank which are holding District funds have pledged securities as collateral. The market value of the securities pledged exceeded 110 percent of the amount of deposit at December 31, 2008. Cash in Central Valley Community Bank exceeded the \$250,000 amount insured by FDIC by \$409,189 as of December 31, 2008.

**(4) INVESTMENT IN SECURITIES**

Details of the Investment in Securities account are as follows:

Balance, December 31, 2007	\$ 523,250
Add Purchases	<u>14,056</u>
	537,306
Less depreciation in the market value (net)	<u>19,536</u>
Balance, December 31, 2008	<u>\$ 517,770</u>

Investment in securities are stated at fair market value and at December 31, 2008 are as follows:

	Fair Market Value
Bank deposit sweep option	\$ 2,327
Fixed income securities	465,585
Preferreds/fixed rate cap securities	35,852
Mutual Funds	<u>14,006</u>
Total	517,770
Less Bank Deposit Sweep Option shown as cash	<u>2,327</u>
	<u>\$ 515,443</u>

**(5) ACCOUNTS AND OTHER RECEIVABLES**

Sales and service receivable	\$ 4,062
Land lease receivable	77,150
Assessments and other current receivables	<u>23,845</u>
	<u>\$105,057</u>

All assessments are considered collectible based on the District's ability to recover delinquent accounts with a lien upon all assessed property. After a five-year period the District can sell the property to recover all prior assessments, costs, penalties and interest.

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

**(6) GRANT REVENUE**

**Community Development Block Grant (CDBG).** On December 18, 2007, Tranquillity Irrigation District was granted a grant under Project #07202 by the County of Fresno to replace non-working Isolation valves in the District's domestic water system. The total cost incurred for the project amounted to \$21,473 of which \$20,000 would be reimbursed to the District under the Agreement. Upon completion of the project in 2008, the District recognized a receivable of \$20,000 and a capital contribution in the financial statements. The total cost of the project has been charged to capital assets.

The grant receivable of \$20,000 was paid on January 20, 2009.

**(7) UTILITY PLANT**

The following is a summary of the changes in utility plant during the year:

	Balance at 12/31/07	Additions	Retirement: Transfers	Balance at 12/31/08
Land	\$ 1,622,542			\$ 1,622,542
Water storage rights (Pine Flat)	122,285			122,285
Transmission & distribution plant	5,293,558	803,447	5,989	6,091,016
General plant	1,093,651	48,545	192,044	950,152
	8,132,036	851,992	198,033	8,785,995
Construction in progress	58,002	33,045	43,592	47,455
Totals	8,190,038	885,037	241,625	8,833,450
Less Accumulated depreciation	(3,083,740)	268,809	173,358	(3,179,191)
Net book value	\$ 5,106,298			\$ 5,654,259

**(8) NOTES RECEIVABLE**

Notes receivable from three landowners	\$ 9,814
Less current portion of notes receivable	9,814
	<u>\$ -</u>

Installment payments of each landowner's proportionate share are being paid on the first of April, July, October and December plus interest according to the interest rate paid on District funds held by the State of California Local Agency Investment Fund during the State of California's quarterly period most recently completed. The notes receivable amount is expected to be collected in full in 2009.

**(9) LONG-TERM WATER CONTRACTS**

**Rental of Water Entitlement and Storage Space:** The District has a rental agreement with other Lower River units to allow such units to use the District's rights to the flow of the Kings River and the use of storage space of the District in the Pine Flat Reservoir. This agreement covers a twelve (12) year period commencing December 23, 2003. The agreement provides in consideration for the use of Tranquillity Kings River storage space, the Lower River units shall pay an annual rental in advance on or before January 1 of each year of \$167,800. The amount of the annual rental shall be increased by \$13,424 on January 1, 2008 and every four years thereafter.



**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

**Purchase of Water:** In December 2003, the District's original long-term contract, for a period of forty (4) years, expired. The District had a two interim renewal contract with the United States of America to provide the District with a supplemental water supply from the Central Valley Project with a term expiring February 28, 2006. A 25 year period long term renewal contract was executed on February 22, 2005 effective from March 1, 2005 through February 28, 2030. The contract provides for the purchase of 13,800 acre-feet of Project Water annually for irrigation and M & I purposes, subject to reductions in dry years and other terms and conditions of the contract. The water is purchased at the applicable rates and charges determined annually accordance with applicable Federal law and associated regulations.

In addition, Central Valley Project ("CVP") ,main project capital allocated to the District must be paid in full by the year 2030. This capital is allocated to the federal water contractor on the basis of future projected water deliveries and is included in the Bureau's cost-of-service water rate. As of September 30, 2007, \$2,826,960 in unpaid CVP capital was reflected on the Bureau's accounting records as the District's future capital obligations. This amount has not been accrued as an obligation on the District's financial statements.

**(10) ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses as of December 31, 2008 were as follows:

Trade accounts payable	\$ 81,559
Interest payable	29,926
Customers deposits	10,847
Other payables and accrued expenses	<u>1,915</u>
	<u>\$ 124,247</u>

**(11) LONG-TERM DEBT**

Long-term debt as of December 31, consisted of the following:

Loan payable to City National Bank, issue date December 19, 2000, semiannual installments of principal and interest payable March 2 and September 2 at an interest rate of 5.85%. Final payment due in 2012.

Loan payable to the State of California, Department of Water Resources under the Water Conservation Bond Law of 1988, a 20-year loan repayment period, at a 2.50% interest rate, semi-annual installments of principal and interest payable each April 1 and October 1. Final payment due in 2017.

Loan payable to Westamerica State Bank, semiannual installments of principal and interest payable January 15 and July 15 at an interest rate of 5.25% until January 15, 2005, then at a rate of 6% until January 15, 2015. Loan matures and final payment of all principal plus all accrued interest is due on January 15, 2015. Collateralized with first trust deed.

Loan payable to Westlands Water District, under the contributed funds agreement, a 10 year loan repayment period, at a 5.0% interest rate, monthly installments of principal and interest of \$1,369 beginning March 15, 2005. Final payment due in 2015.

The following summarizes the long-term transactions for the year ended December 31, 2008.



**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

	Balance 12/31/07	Additions	Payments	Balance 12/31/08
City National Bank	\$ 418,000	\$ -	\$ 74,000	\$ 344,000
State of California – Department of Water Resources	752,005	-	75,483	676,522
Westamerica State Bank	729,600	-	38,400	691,200
Westlands Water District	98,786	-	11,759	87,027
	1,998,391	\$ -	\$199,642	1,798,749
Less current maturities	(202,145)			(206,168)
	<u>\$1,796,246</u>			<u>\$1,592,581</u>

Maturities of long-term follows:

2009	206,168
2010	214,736
2011	222,396
2012	229,132
2013	148,655
Later years	777,662
	<u>\$ 1,798,749</u>

The District entered into an agreement with the United States to provide for financial participation in the Delta-Mendota Canal-California Aqueduct Intertie Project (the "Contributed Funds Agreement"). Title to the project shall be in the name of the United States of America. The Project involves construction of 500-foot long pipeline between the Delta-Mendota Canal and the California Aqueduct, which would improve operational flexibility of the two systems and increase pumping capacity within its limits provided under existing permits which will assist the District in obtaining slightly additional water allocation from the operation of both canal facilities.

At the time of execution of this agreement, the estimated total Project cost is \$27.5 million. The estimated total amount to be provided by contribution of all contributing Districts is \$25.0 million. The District's share of contributed funds is \$176,530. The District has incurred indebtedness to finance a portion of its contribution to the Project through Westlands water District. A promissory note in the principal amount of \$129,098 with interest on the unpaid balance thereof at the rate of five percent per annum was executed at the same time which is the District's commitment to Westlands to reimburse them for the amount advanced or to be advanced, the amounts described in the Contributed Funds Agreement. The District may elect to withdraw from further economic participation prior to contributing all amounts, the principal amount of the Note shall then be reduced to incorporate the amounts actually contributed by Westlands on behalf of the District under this agreement prior to withdrawal. Upon transfer of the Intertie for water rate setting cost recovery purposes, Reclamation shall credit funds to the District's applicable unpaid CVP irrigation and M & I Capital costs.

**(12) DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan, created in accordance with the Internal Revenue code Section 457. The plan, available to all District employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are solely the property and rights of the employees and are no longer subject to the general creditors of the District, effective January, 1999. Per GASB No. 32, the District no longer records assets or liabilities associated with its Section 457 deferred compensation plan.

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

**(13) DEFINED CONTRIBUTION PLAN**

Effective January 1, 1996, the District has established a defined contribution Money Purchase Thrift Plan covering substantially all of its employees who have attained age 21. The Plan is subject to the laws of the United States of America to the extent applicable, otherwise to the laws of the State of California except where preempted by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code or corresponding provisions of subsequent law.

The District contributes 17.35% of the employee's eligible compensation. In order to share in Employer Contributions, plan participants shall agree to contribute 7.65% of their compensation to the plan. The District's contributions for each employee, and interest allocated to the employee's account, are fully vested after six years of credited service. Participants are 100% vested in their contributions plus actual earnings in the account balance attributable to the Money Purchase pension Plan as of December 31, 1987 and the Defined Benefit Plan as of December 31, 1995, referred to as a "Participant's Rollover Account." District contributions for, and interest forfeited by, employees who leave employment before being fully vested are used to reduce the contribution requirement. The District contributed \$56,184 to the Plan in 2008.

**(14) POST RETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the District currently provides certain health care benefits for retired employees and directors. Employees and directors are eligible for those benefits if they reach age 55 or more, serve a minimum of twelve years and were hired or elected prior to 1995. Expenses of \$83,510 were recognized for retiree expense for the year ended December 31, 2008.

As of December 31, 2008, there are 8 retirees, 7 active employees, and 3 directors who are active plan participants

**(15) COMMITMENTS AND CONTINGENCIES**

**Land Lease.** The District has signed an agreement to lease approximately 433 acres of the District's farmable land for agricultural purposes. The term of the lease is for three growing seasons commencing in January 2006 and terminating on the 31<sup>st</sup> day of December, 2008. The rental amount due and paid in 2008 to the District is \$43,000.

The District has also signed an agreement to lease approximately 259 acres of the District's farmable land for agricultural purposes. The term of the lease is for a five year period commencing on January 1, 2008 and terminating on the 31<sup>st</sup> day of December, 2012. The rental amount due and paid in 2008 to the District is \$39,368.

The District has signed another agreement to lease approximately 216 acres of the District's farmable land for agricultural purposes. The term of the lease is for a five year period commencing on January 1, 2008 and terminating on the 31<sup>st</sup> day of December, 2012. The rental amount due and paid in 2008 to the District is \$32,832.

**2000 Loan Payable Covenant.** The District's 2000 loan agreement with the City National Bank contains the following covenant. The District will establish, or cause to be established, maintained and collected, charges sufficient, when combined with other revenues received, to provide net revenues equal to not less than 1.20 times the aggregate amount of the total principal and interest on all obligations which shall become due and payable within the next succeeding twelve months.

**TRANQUILLITY IRRIGATION DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

**State of California Loan Contract.** The District's loan contract agreement with the State of California Department of Water Resources to finance the water conservation project (Meter Project) will require a reserve of two semiannual payments to be accumulated during the first ten year period, thereafter this reserve shall be maintained at this level and administered by the Fiscal Agent. The first semiannual payment was due and paid on April 1, 1997.

**The Contributed Funds Agreement.** The District entered into an agreement with the United States to provide for financial participation in the Delta-Mendota Canal-California Aqueduct Intertie Project ( the "Contributed Funds Agreement") which will assist the District in obtaining slightly additional water allocation from the operation of both canal facilities. On August 31, 2005 Planning and Conservation League ("PCL") filed a complaint against the Bureau alleging that it had not properly complied with the National Environmental Policy Act ("NEPA"). On February 14, 2006 a preliminary injunction was issued. As a result, the Bureau has suspended or terminated contracts regarding construction of the Intertie and commenced completion of the Environmental Impact Statement ("EIS"). Although the District is not a party to this litigation, the litigation will adversely affect the District in that (a) anticipated benefits from the Intertie Project will be delayed by least two years and (b) the ultimate cost of the Intertie Project, and therefore the Districts contribution to the Project, may increase as the construction is deferred. Due to their delay the Bureau will be transferring the contributed funds into an interest bearing account.

**State Drinking Water Standards.** On January 1, 2006, the Federal drinking water standards for arsenic was changed or lowered to 10 parts per billion, which caused Tranquillity to be out of compliance. The District has followed state standards in reporting this condition to customers of the District. State regulations require the District make progress in lowering the readings through removal or remediation. The District is currently evaluating its options for complying with the state requirements. A formal plan has not been adopted, therefore, cost estimate for removal or remediation are not available.

- (16) The District sells water to members of the Board of Directors under the same terms and conditions as unrelated parties.



**CALIFORNIA EMERGENCY MANAGEMENT AGENCY**  
**LOCAL ASSISTANCE MONITORING BRANCH**  
 3650 SCHRIEVER AVENUE  
 MATHER, CALIFORNIA 95655  
 PHONE: (916) 845-8120 FAX: (916) 845-8380



July 9, 2009

Audit #  
04934

Mr. Danny M. Wade  
 General Manager  
 Tranquility Irrigation District  
 P.O. Box 487  
 Tranquillity, CA 93668

SUBJECT: SINGLE AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008  
 FIPS #019-91007

Dear Mr. Wade:

Since the California Emergency Management Agency (CalEMA) (formerly the Governor's Office of Emergency Services (OES)) is subject to the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, the CalEMA is required to monitor its subrecipients of federal awards to determine whether they have met the audit requirements of the Circular. The Circular specifically requires non-federal entities that expend \$500,000 or more in a year in federal awards to have either an annual single or program-specific audit, and that the audit report be submitted within nine months after the end of the audit period.

To date, an audit report for your organization for the year ended June 30, 2008 has not been received by the CalEMA. Accordingly, the CalEMA is requesting that you check one of the following options listed below, and return a signed copy of this letter to the above address within 30 days of its date, along with all appropriate documentation regarding your organization's compliance with the audit requirement. If findings were noted in your audit report, please include a summary of your management responses and corrective actions taken. In addition, please submit a copy of any separate letter to management mentioned in the audit report.

<input checked="" type="checkbox"/>	We have completed our A-133 audit for fiscal year(s) ended <u>Dec 31, 2008</u> . A copy of the audit report(s) is enclosed.
<input type="checkbox"/>	We expect our A-133 audit for fiscal year(s) ended _____ will be completed by _____. A copy of our audit report along with our management responses and corrective actions taken related to any findings will be forwarded to the CalEMA within 30 days of receipt of the report.
<input type="checkbox"/>	We are not subject to A-133 audit because: _____ We are a for-profit organization _____ We expend less than \$500,000 in federal awards annually _____ We are a component entity of the following organization and included in its A-133 audit: _____ _____ Other (please explain) _____ _____

Mr. Danny M. Wade  
July 9, 2009  
Page 2

This is to certify that, to the best of our knowledge and belief, the data furnished above is accurate, complete and current.

Danny M Wade  
Type or Print Name  
7-13-09  
Date

General Manager  
Title  
Danny M. Wade  
Signature

If you have any questions regarding this issue, please contact our office at (916) 845-8120.

Sincerely,



CATHERINE LEWIS  
INTERIM BRANCH CHIEF